BAIN & COMPANY

Strategic Planning in the Private Sector

August 19, 2003

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Agenda

- What successful companies do

- Examples from the private sector

- Applications to the MHS

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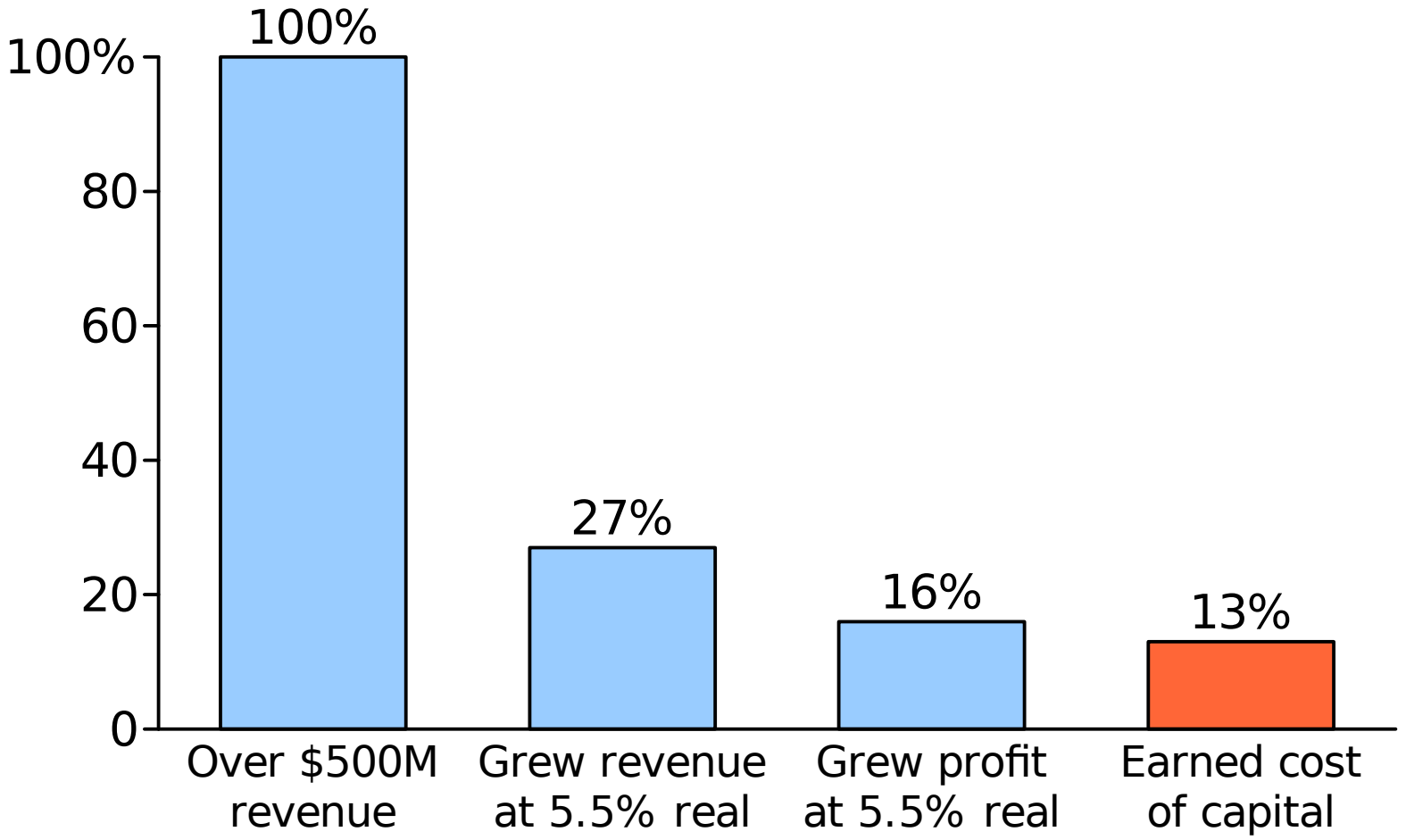
Success is rare and few entities accomplish their goals

Percent companies meeting successive criterion



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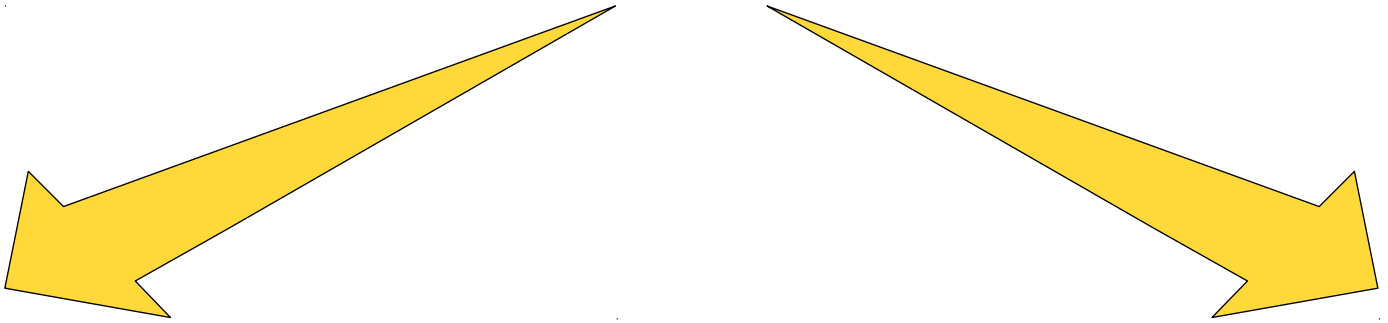
Keys to success



A well developed, differentiated strategy

A rigorous, fact based planning process to connect strategy with tactics

A well aligned, effective organization to execute

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“Strategy” defined: Bain perspective

- A **dynamic plan** to **differentiate** a business from its competitors profitably and sustainably

- A **proprietary set of actions** that create and capture value by **serving customers in a superior way** relative to competitors

- Informs virtually **all decisions**
  - -Portfolio strategy: **Where to play?**
  - -Business unit strategy: **How to win?**

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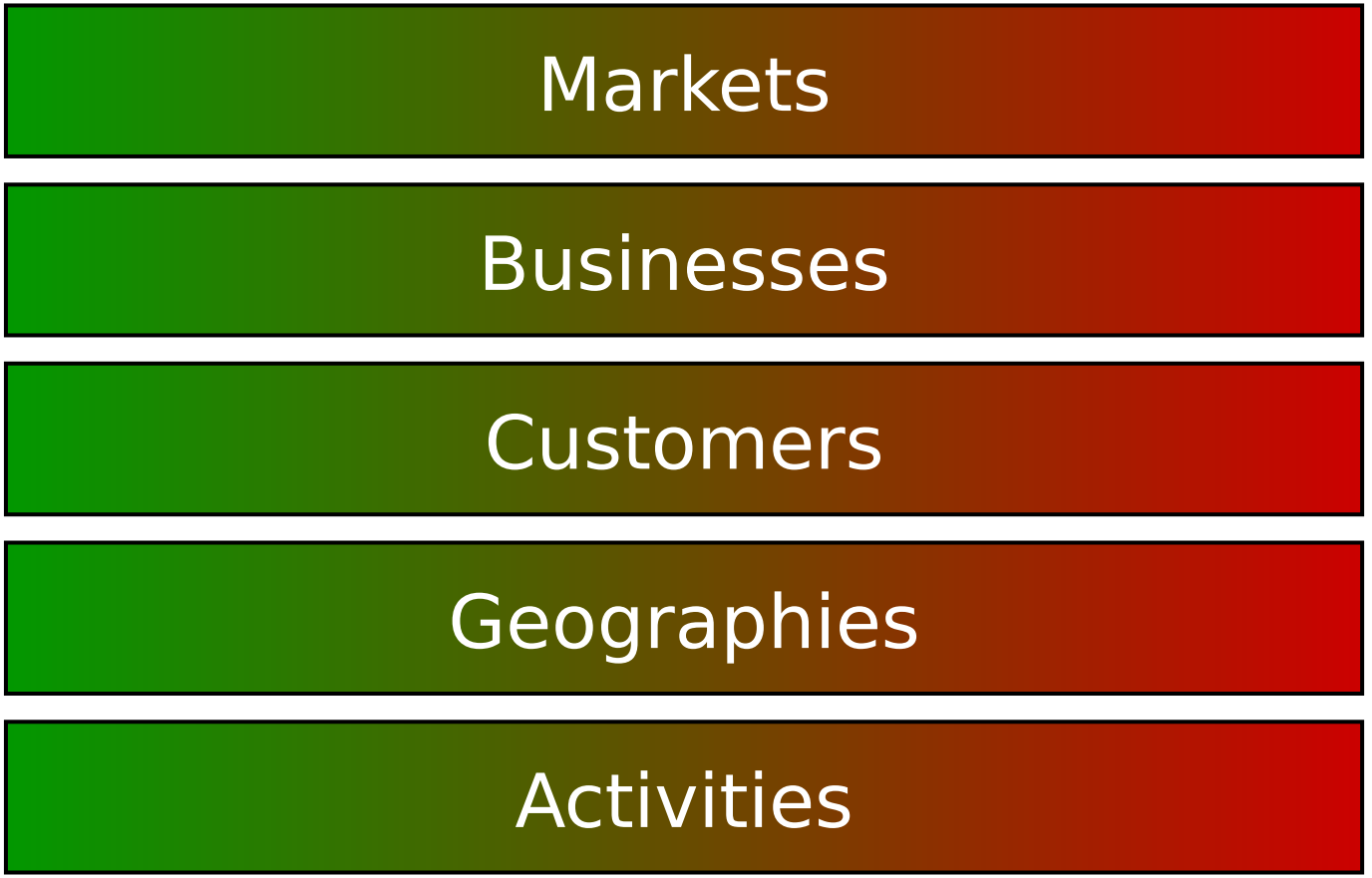
Strategy is about making choices

Where we **will** and **won't** compete

Where we **will** and **won't** invest



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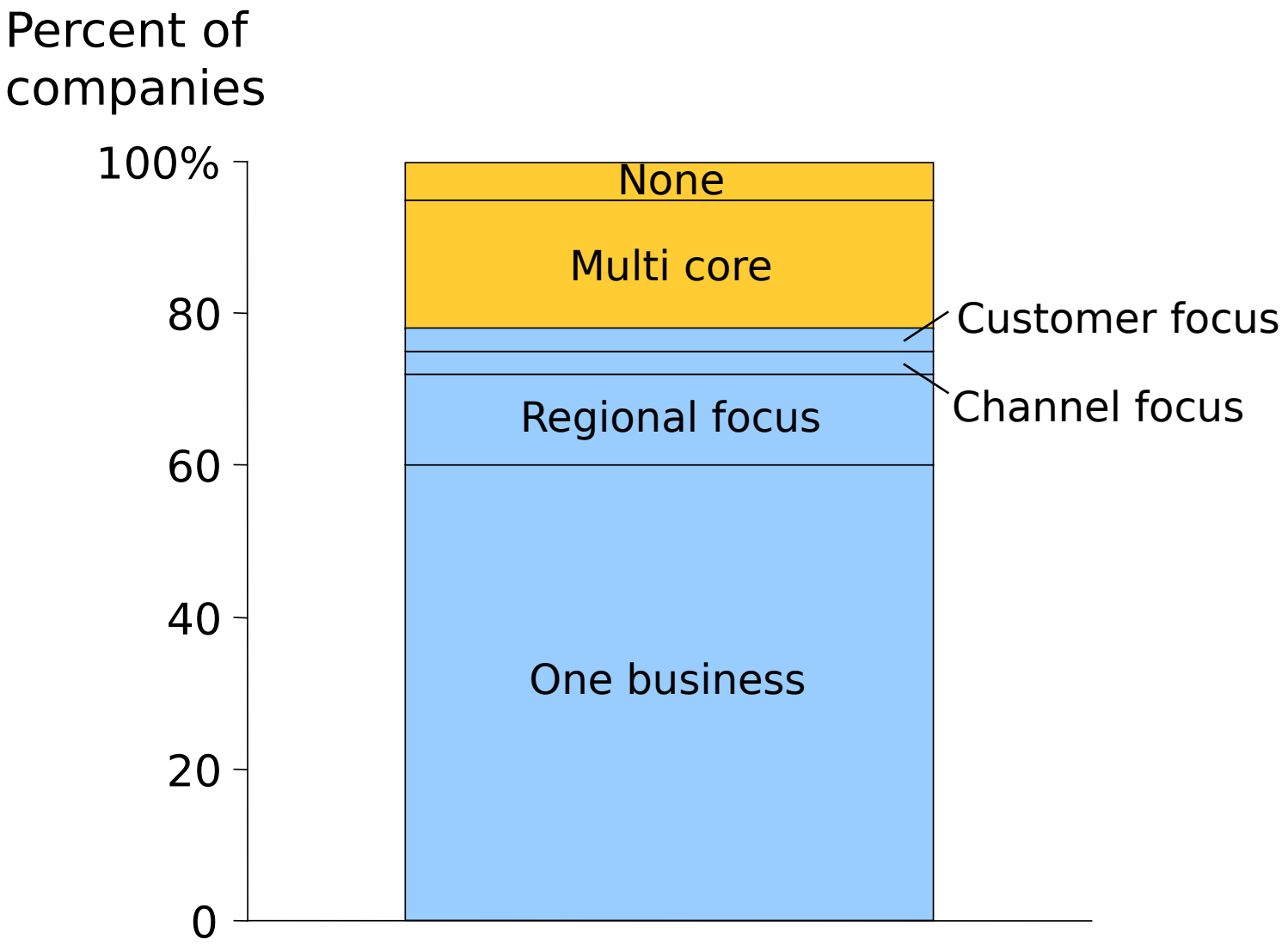
Companies who succeed are focused and are the best at what they do



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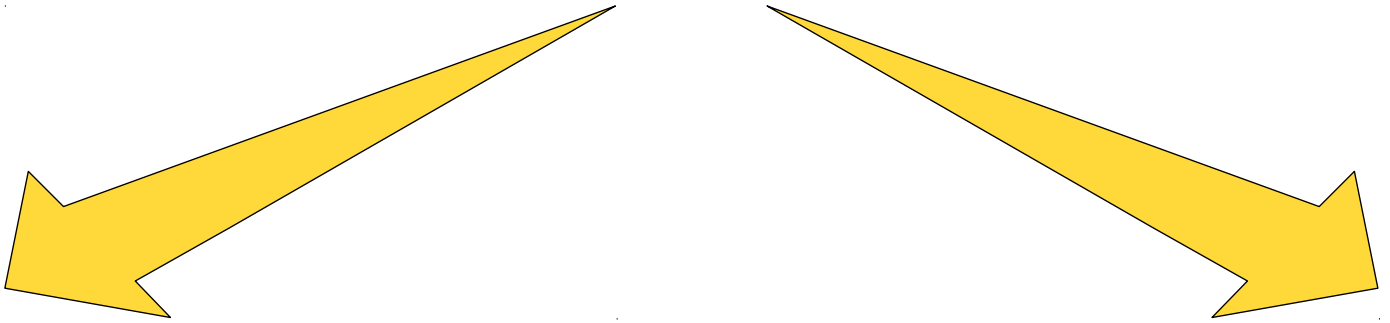

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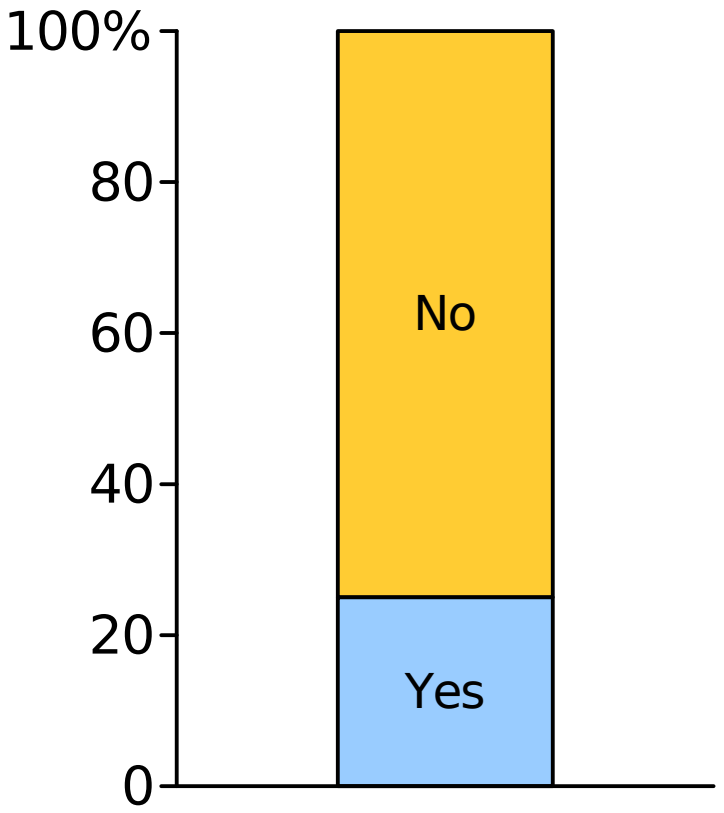
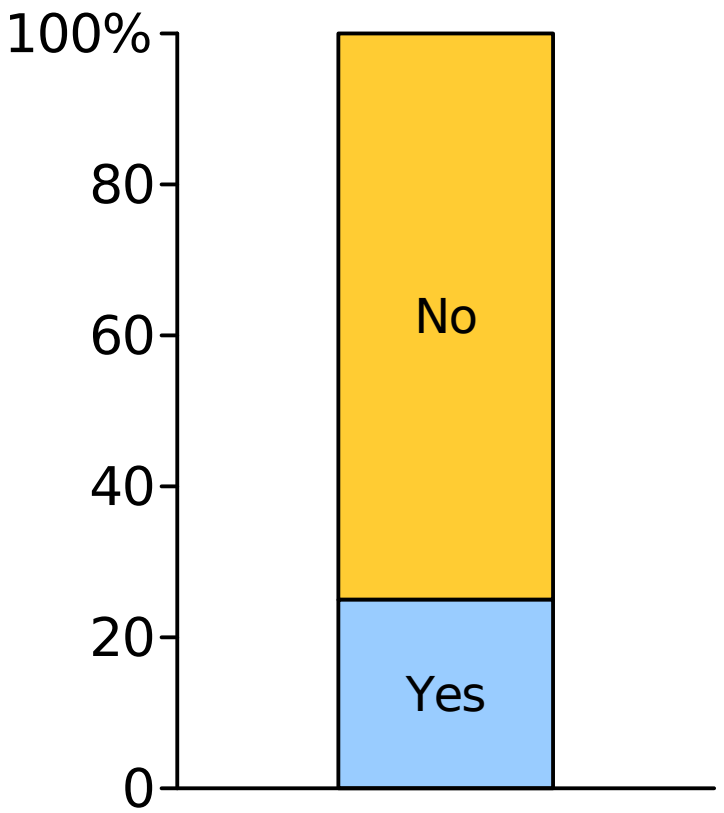
75% of U.S. organizations believe they need to upgrade their strategic planning process

"Our strategic planning process is effective"



"Our strategic planning process is fully developed"



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Best demonstrated strategic planning process

Mission	Portfolio Strategy	Business Unit Strategy	Tactical Planning	Execution and Tracking
• Define the mission	• Decide what businesses and markets to compete in • Determine success metrics by business	• Develop differentiated offering • Identify changing dynamics - External - Internal • Identify key gaps	• Set targets and timelines • Design key initiatives • Develop implementation plans • Realign organization	• Track performance against plans • Modify plans as necessary
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Business unit strategy must be informed by the facts around the "3Cs"

Fact based diagnostic and value proposition		
Customers	Competitors	Costs
• What does our target customer value?	• What can competitors offer and how can we beat this offering?	• How can we provide our value proposition at minimum costs?
• Market size • Market growth • Customer segments • Channel segments • Price experience	• Cost position • Competitive position • Profitability • Strategy • Commitment	• Cost experience • Product profitability • Channel profitability • Value chain economics • Systems cost

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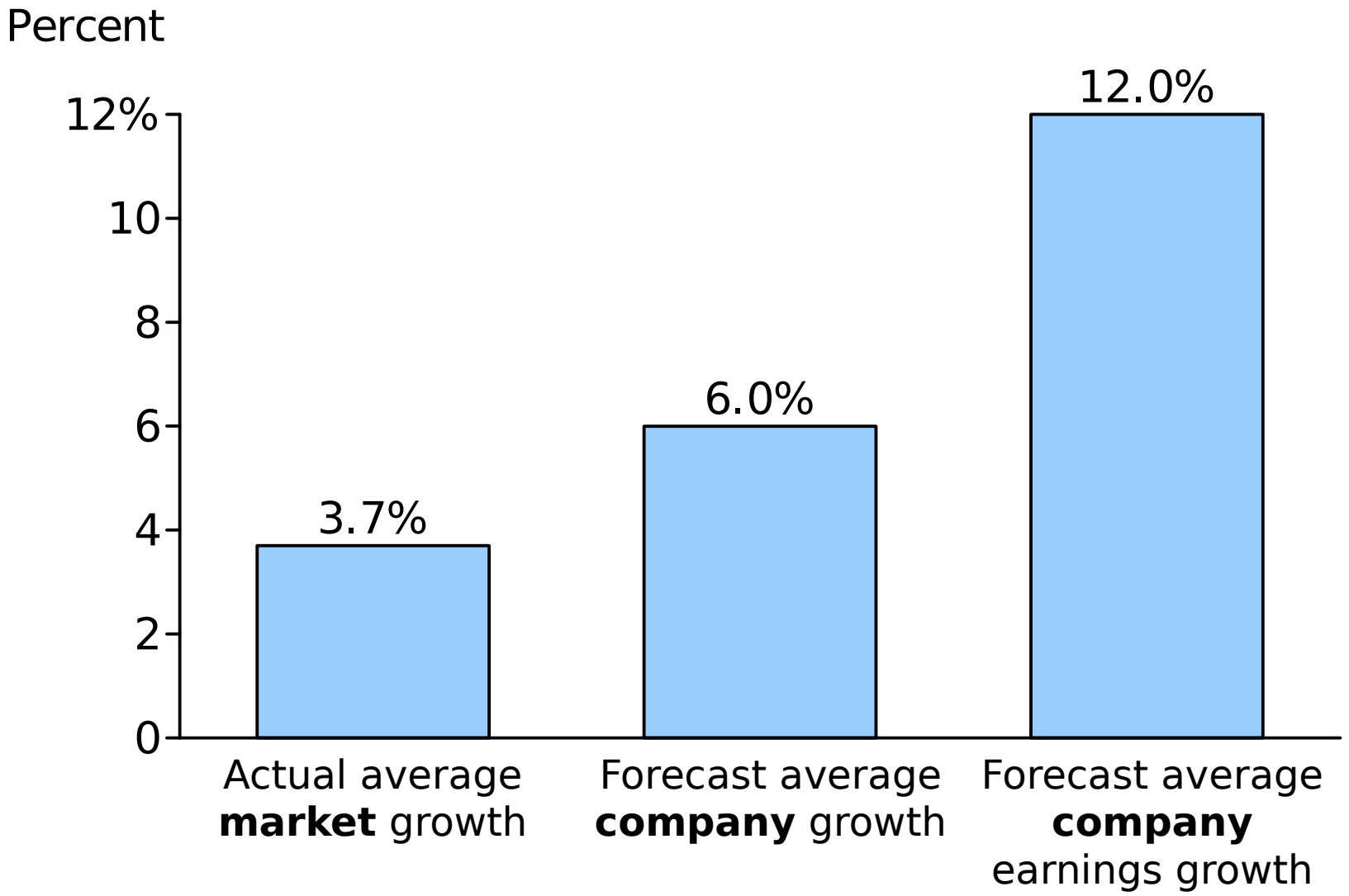
Strategic planning is often done without reference to facts



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Planning processes of best-in-class firms

- **Senior management** devotes significant time
- **Systematic**, with clearly defined steps
- Rigorous, **fact-based** approach, and a **consistent view** of the future
- **Coordinated** across business units
- Enables quick **decision making** and **course correction**

Note: Examples include GE, Dell, Agilent, Abbott, Emerson Electric, Sun

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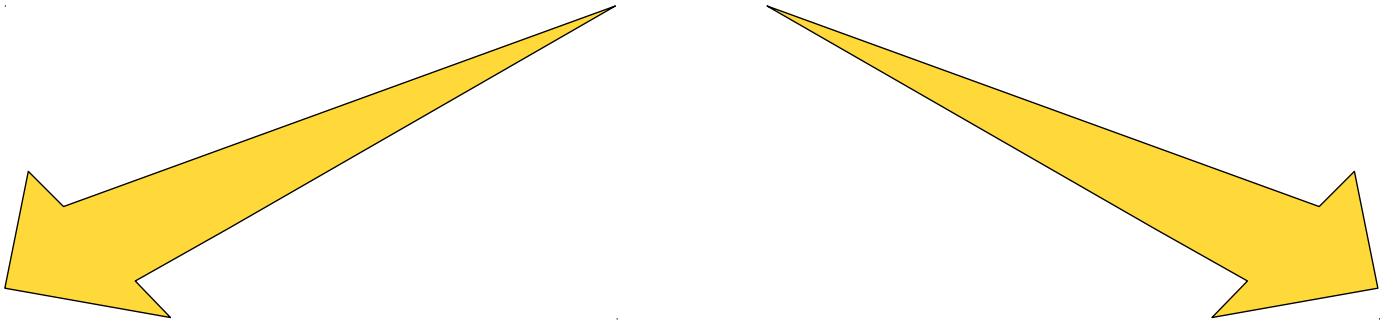

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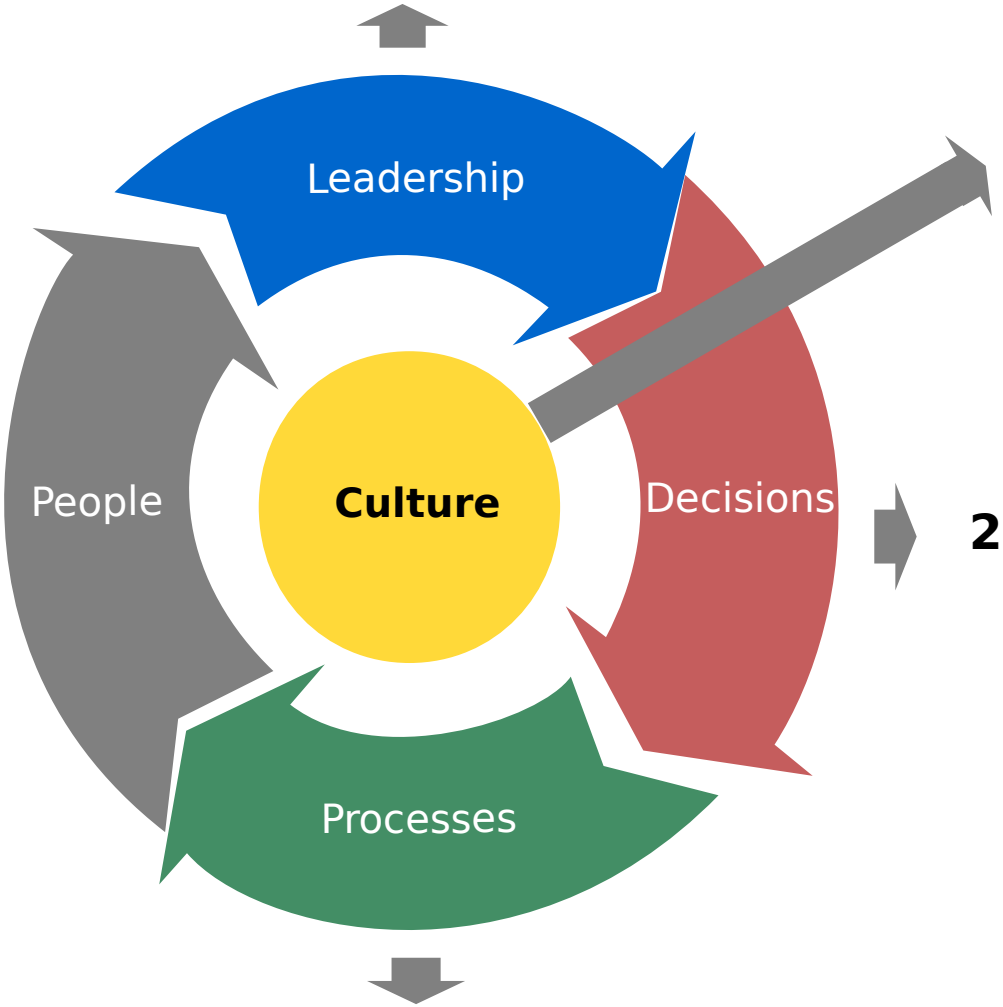
A high performance organization aligns five elements

1. Provides sustained leadership



5. Creates a high performance culture

2. Drives effective decisions

3. Aligns the front line with right jobs and right incentives

4. Right people

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Agenda

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- Examples from the private sector
- Applications to the MHS

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Successful strategic planning begins with a clear, focused mission

- Force trade-offs between competing resource demands
- Test soundness of a particular action
- Set clear boundaries on what to do… and what not to do
- Make clear what “the core” is

  - *Memorable distillation of strategy clearly understood by all*

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Examples of clear, focused, private sector missions: Dell and Southwest

Dell Computer	Southwest Airlines
"Be direct."	*"Meet customers' short-haul travel needs at fares competitive with the cost of taking a bus."*

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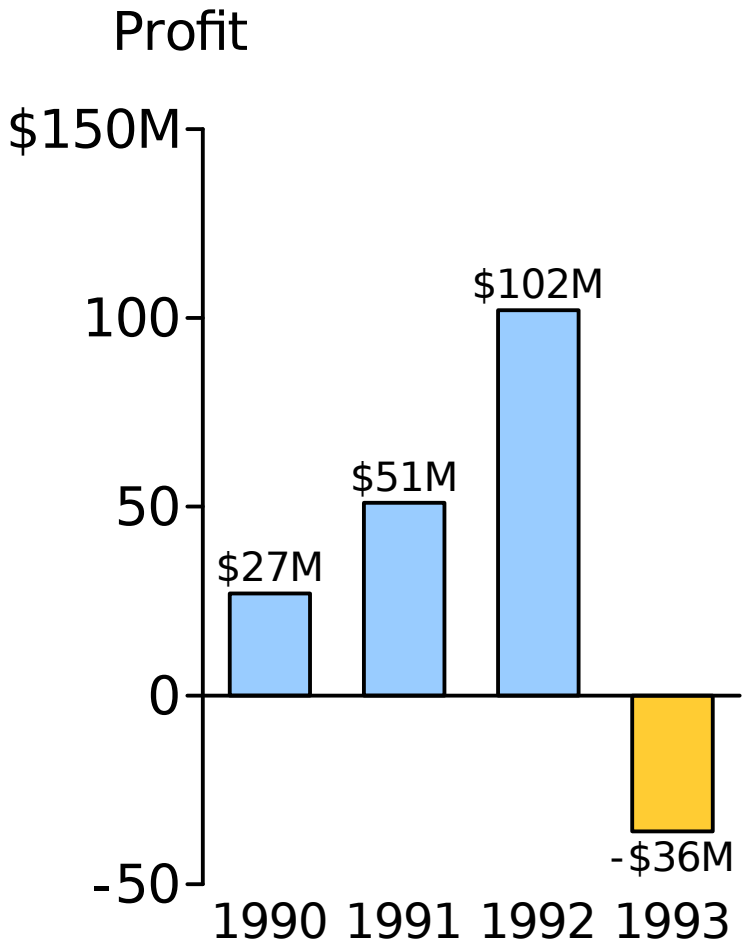
In 1993, Dell strayed from its mission and its core

Situation

- Only in the direct channel (“core”)
- PC market was exploding
- Wanted to capture a larger part of the growth
- Expansion into retail channel

Complication



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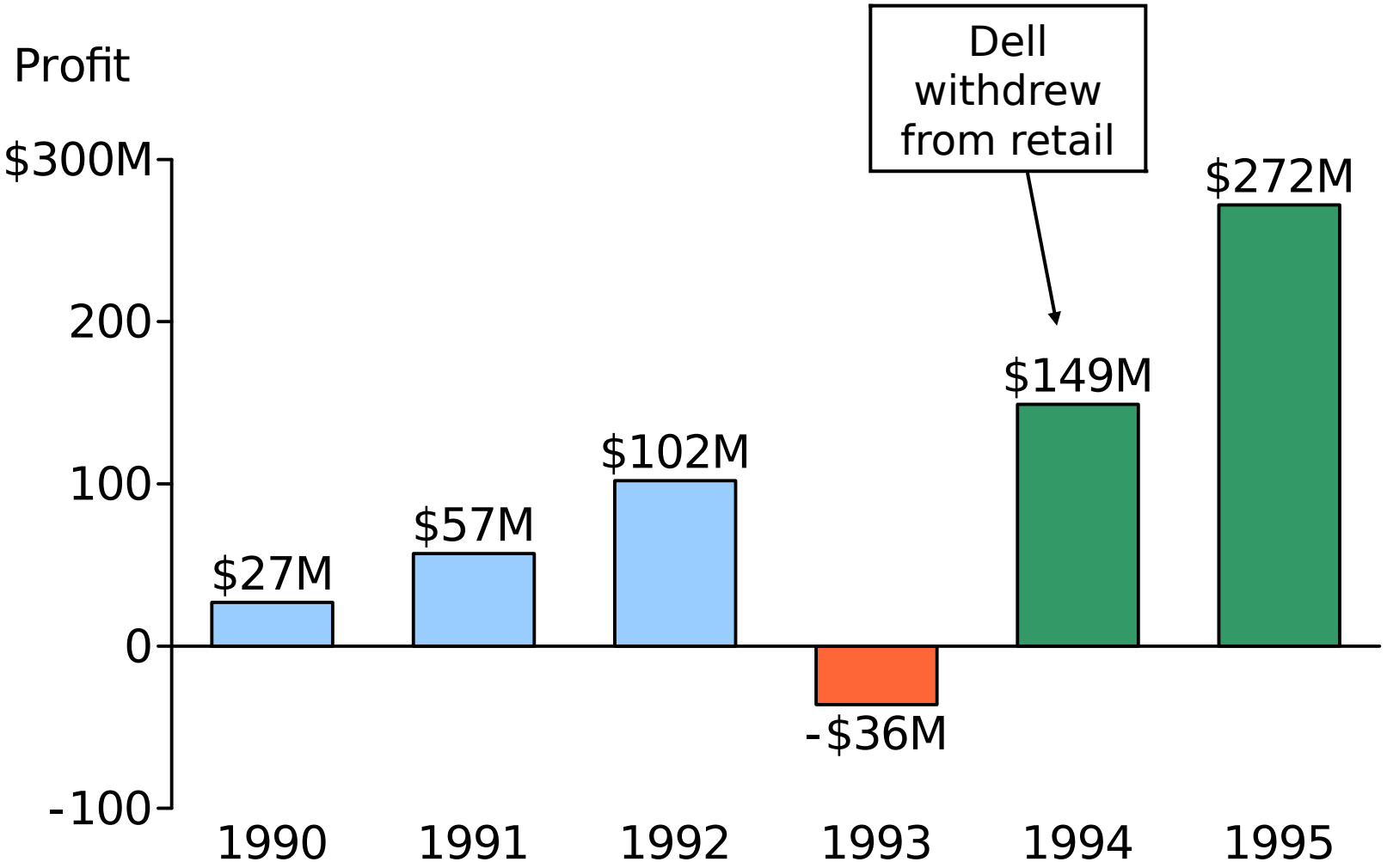
Dell: Back to the core mission



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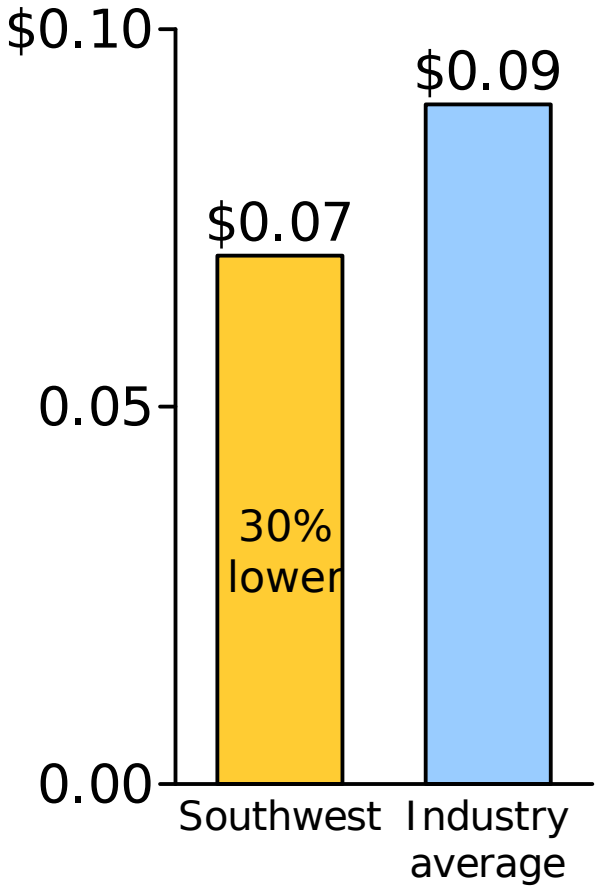
Southwest translated its mission into clear, measurable goals

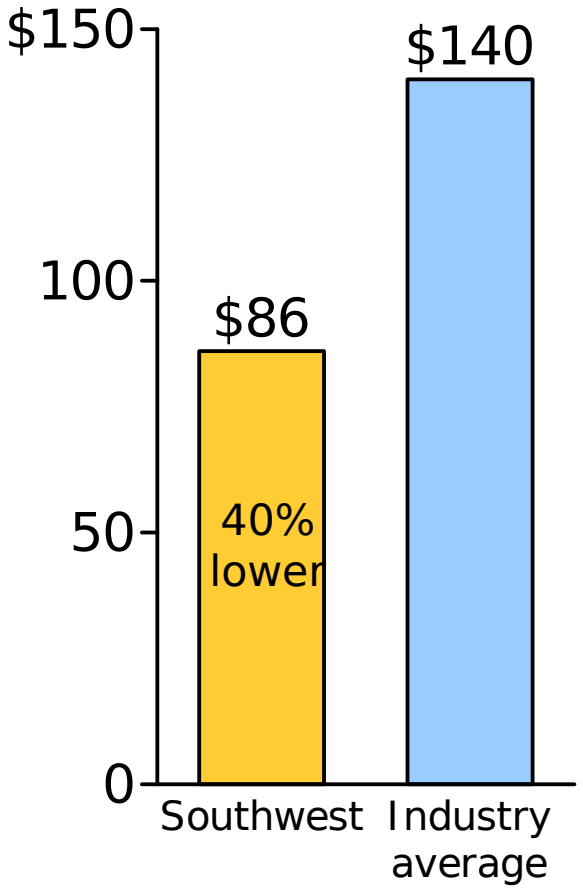
Achieve low cost position

Cost per available seat mile



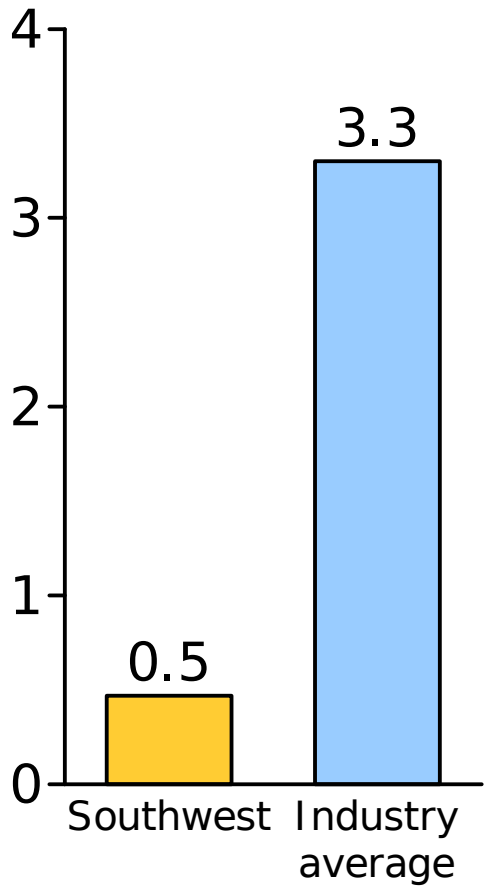
Affordable travel

Average passenger fare



Superior customer service

Consumer complaints per 100K passengers



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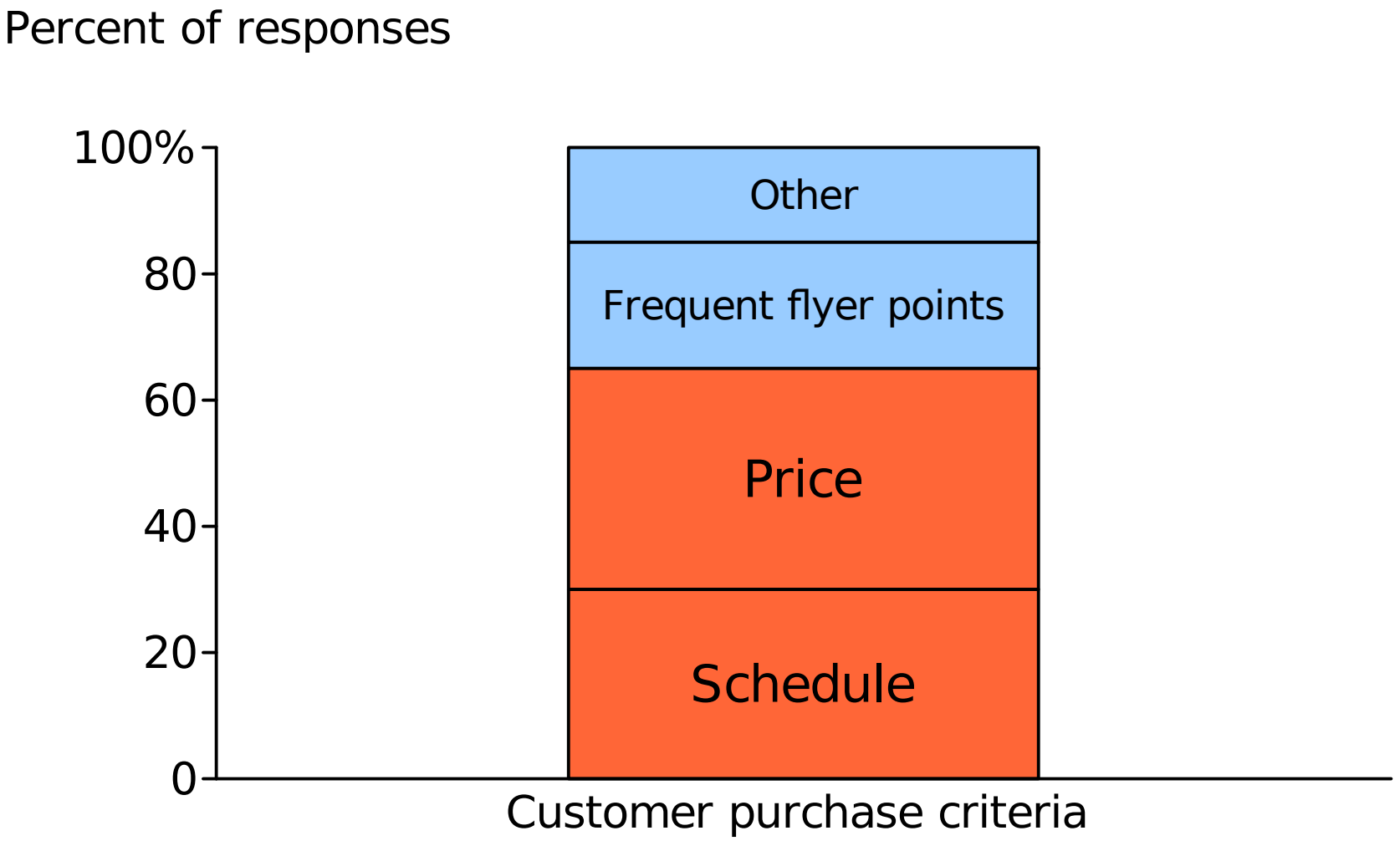
Southwest researched target customer segment needs and preferences



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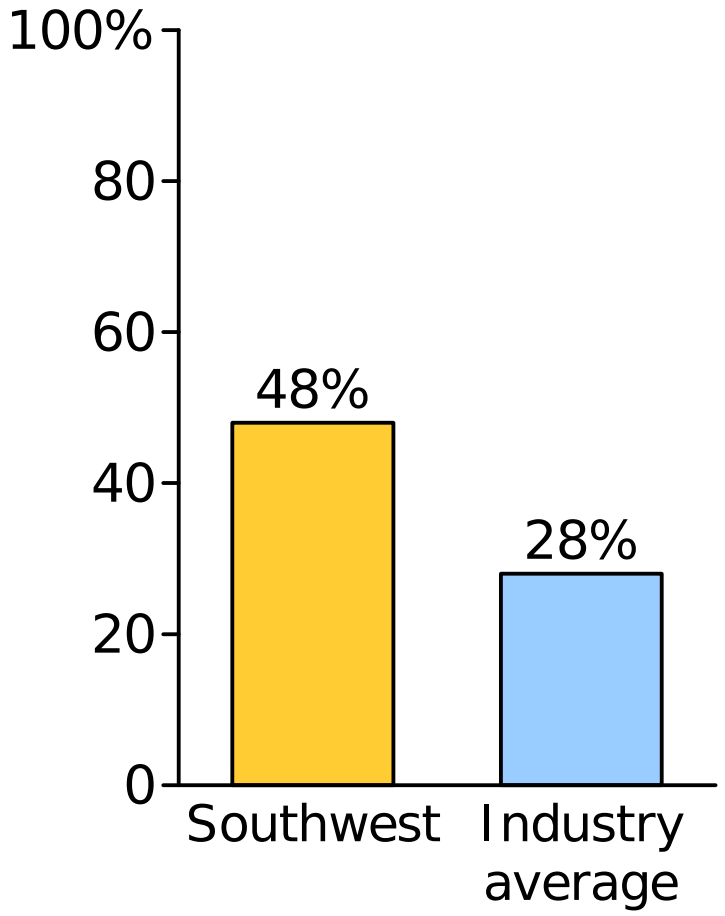
Southwest focused on key metrics for the target population vs. competitors

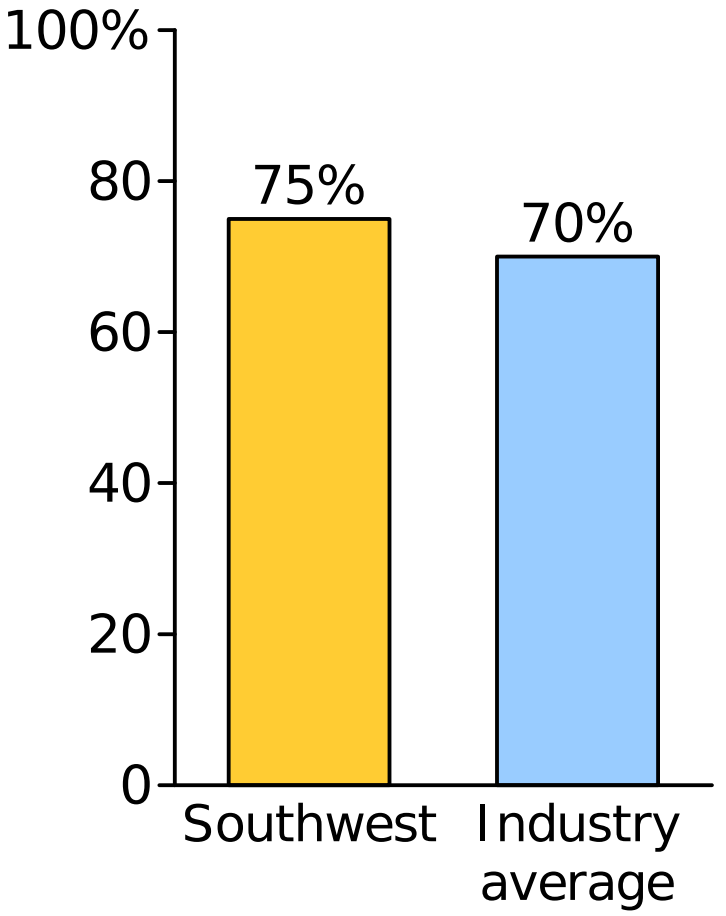
Price

Percent of customers:
Excellent value for the money



Schedule

On-time performance



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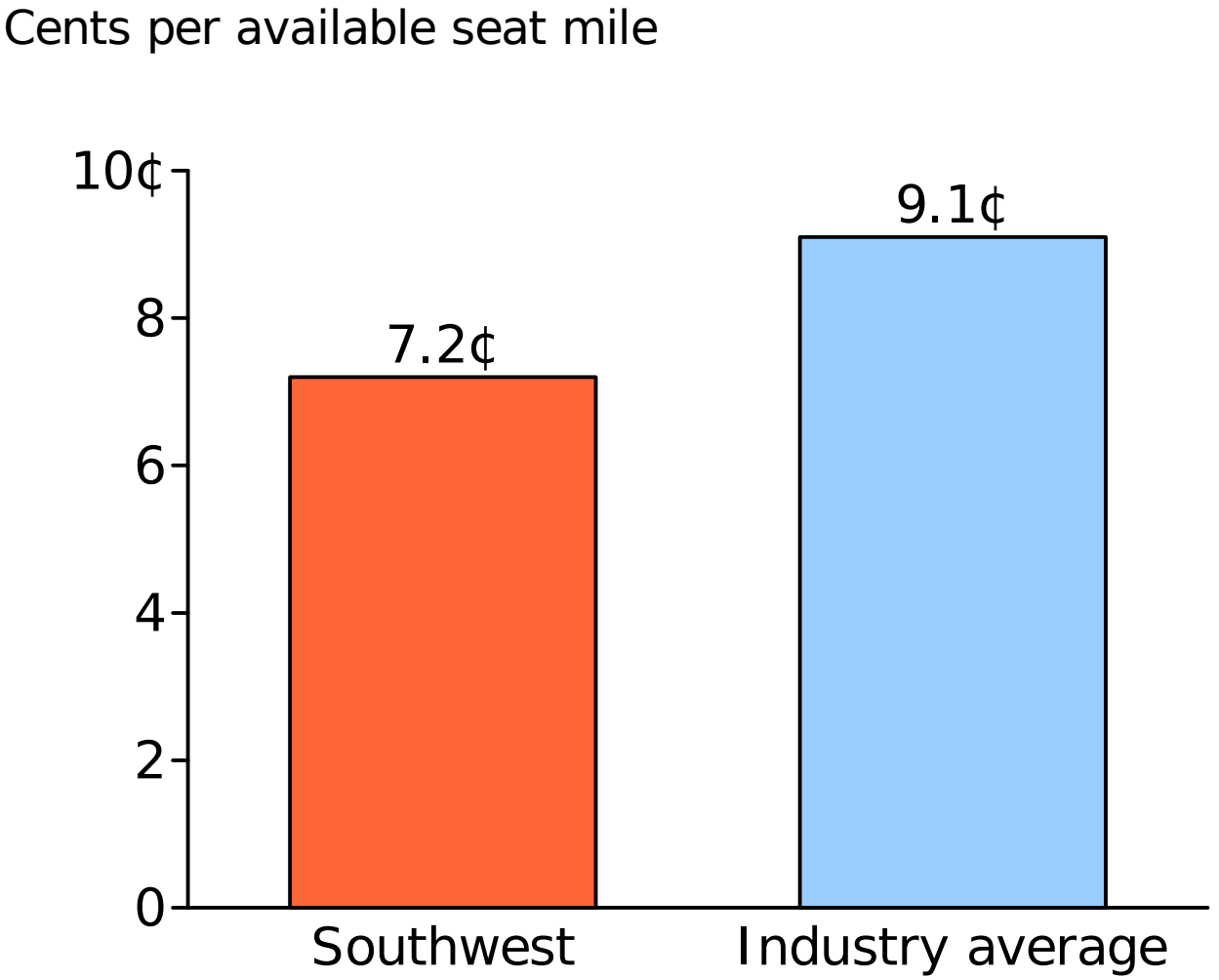
Southwest aligned its cost structure to support its positioning vs. competitors



Cost Initiatives

- One type aircraft
- Secondary airports
- Customer self service
- No frills, no meals service

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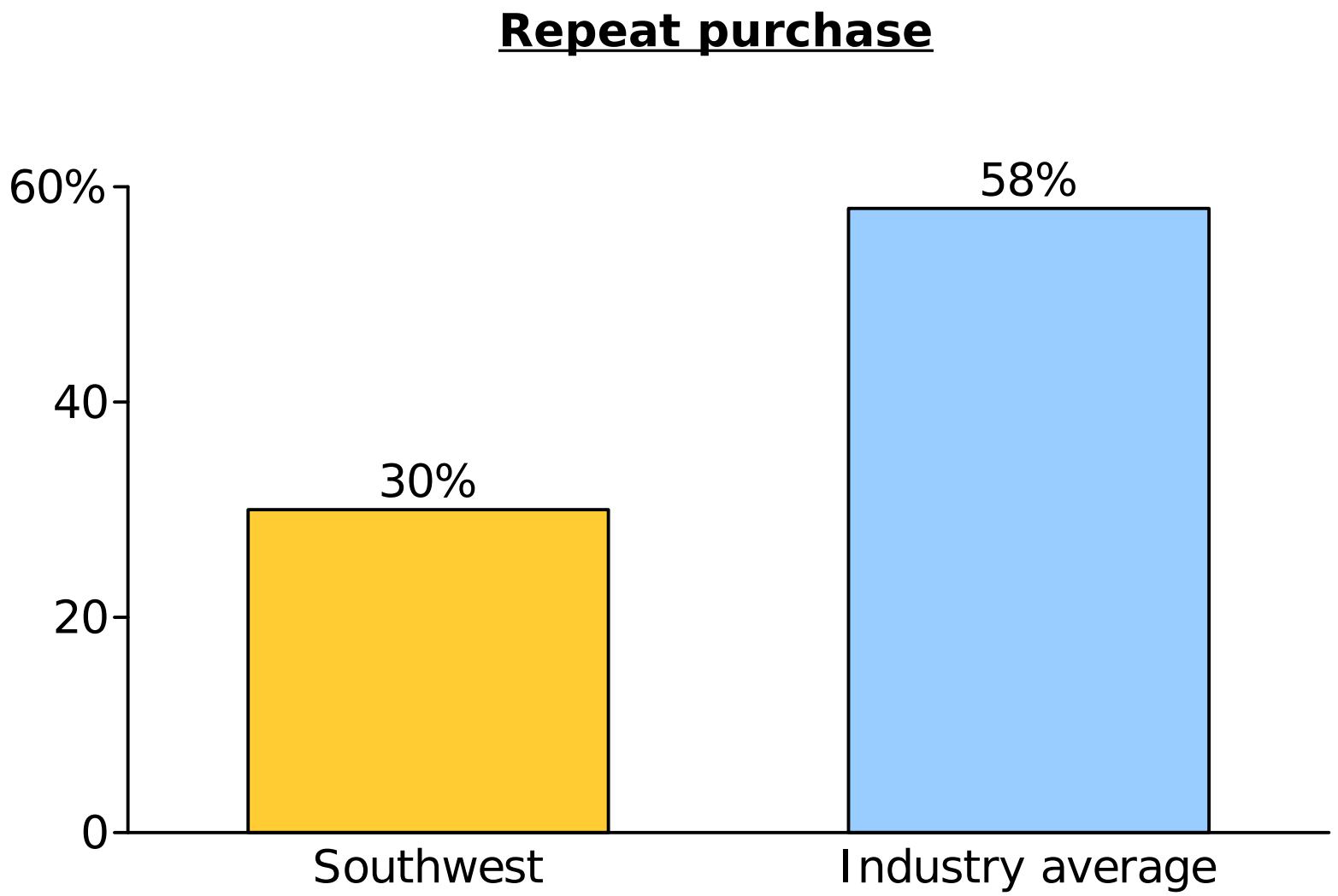
Southwest ignored traditional airline measures that competitors focused on



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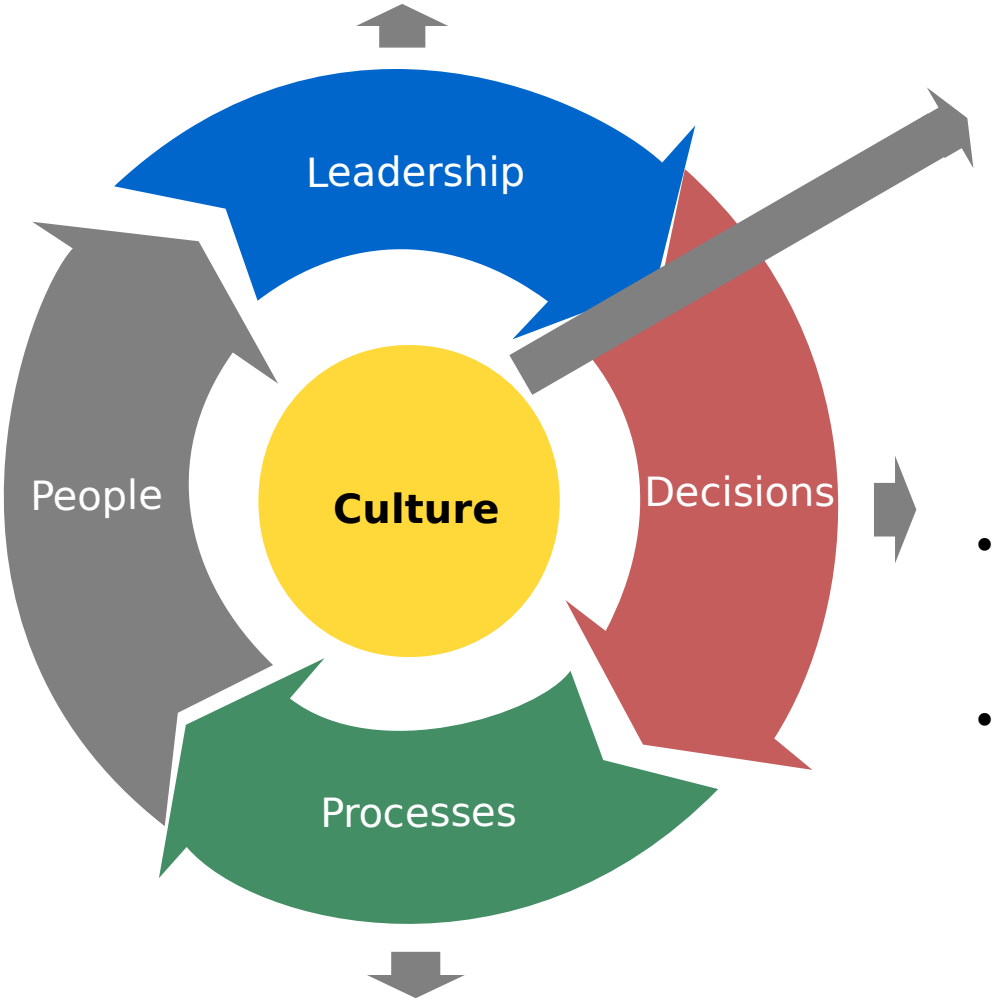
Southwest aligned its organization to implement successfully

"Be low cost and deliver excellent service"



- Emphasis on
  - Importance of people
  - Employee recognition
  - Having fun

- Selective hiring (2% acceptance)
- Peer recruiting to ensure fits

- Decision making pushed to front lines
- Employee loyalty focus to increase experience (50% less turnover)

- Flexible job descriptions
  - Pilots and attendants "do it all"
- Rigorous customer service training

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Key learnings from Dell and Southwest

- Define a clear mission and a clear core and stick to your core
- Translate your mission into measurable outcomes
- Build a value proposition based on a fact based diagnosis
  - Customers
  - Competitors
  - Costs
- Align the organization to implement your strategy

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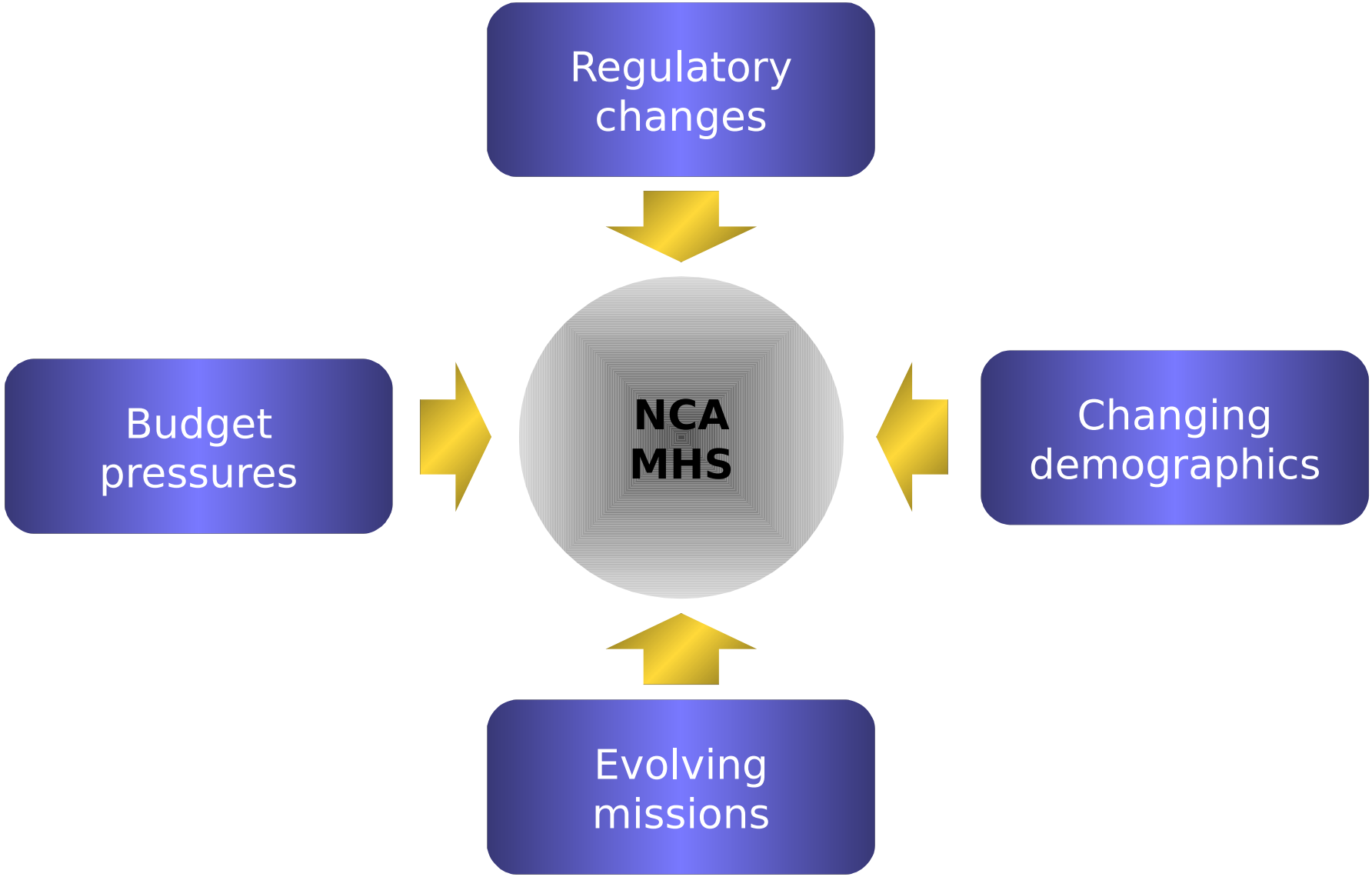
The NCA MHS is experiencing significant pressures from a number of directions



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It is critical to understand the MHS' multiple missions and how they relate to one another

Peacetime mission

- Calls for peacetime providers to provide health care to active duty, their dependents and serve retirees

- Calls for a certain mix of providers, including OB-GYN, pediatrics, etc.

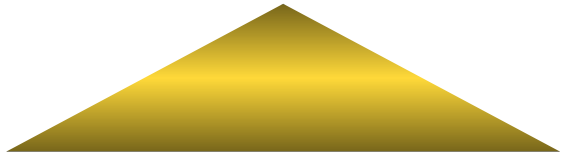
- Typically optimized along access for prime beneficiaries

Wartime mission

- Calls for providers to keep active duty fit and to provide casualty care in the theaters and at MTFs

- Calls for a particular mix of providers, focused on general surgeons, orthopedic surgeons, etc.

- Requires a significant amount of challenging civilian pathology, which may be optimized around 65+ patients



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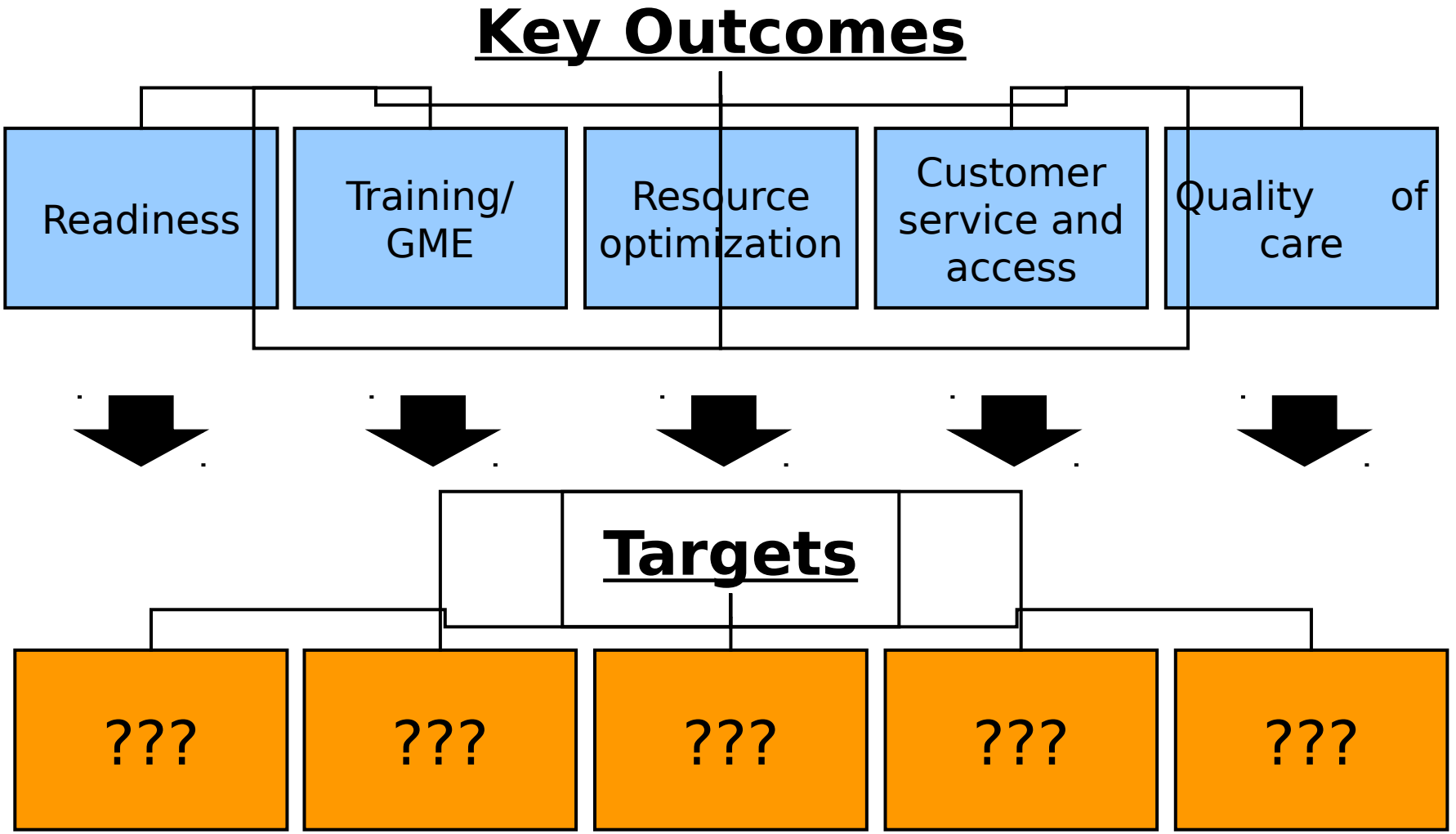
Key outcomes are clear but they need to be translated into measurable goals



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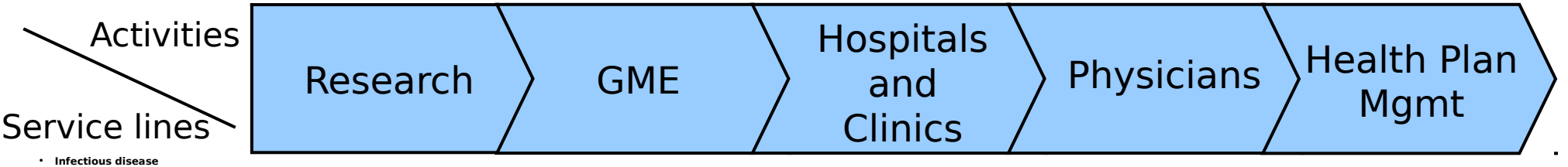
Success for the MHS will likely require focusing on certain activities and clinical



- Infectious disease
- Cardiology
- Physical therapy
- GI
- Nephrology
- Pain management
- Vascular surgery
- Urology
- Endocrinology
- Neurosurgery
- Rheumatology
- Family practice
- Mental health
- Neurology
- Hem-onc
- Dermatology
- General internal medicine
- Orthopedics
- Ophthalmology
- ENT
- Plastic surgery
- Emergency medicine
- CT surgery
- Ob/gyn
- General surgery
- Pulmonary
- Organ transplant
- Pediatric surgery
- Pediatrics (all specialties)

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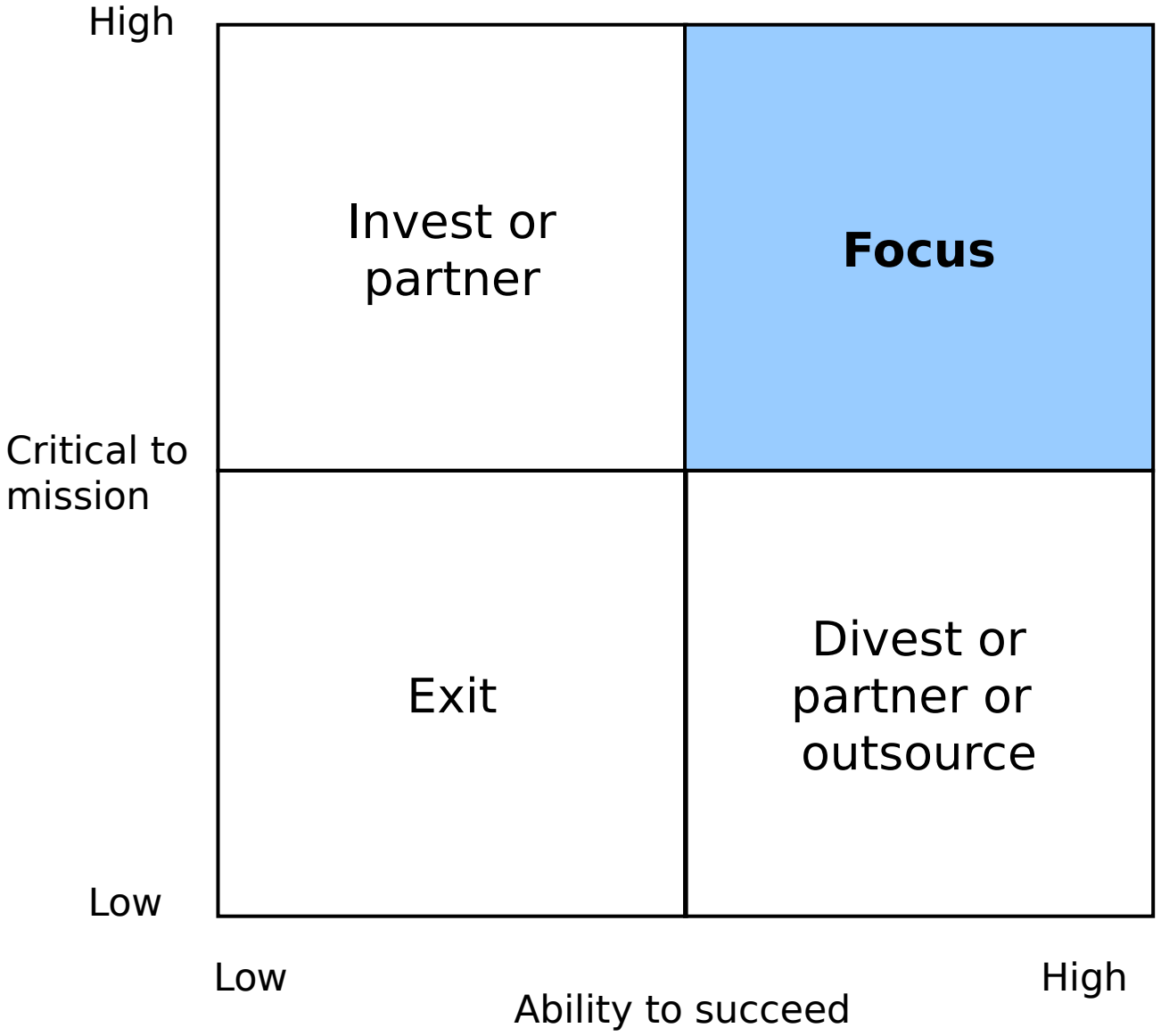
The MHS must pick the service lines and activities on which it should focus



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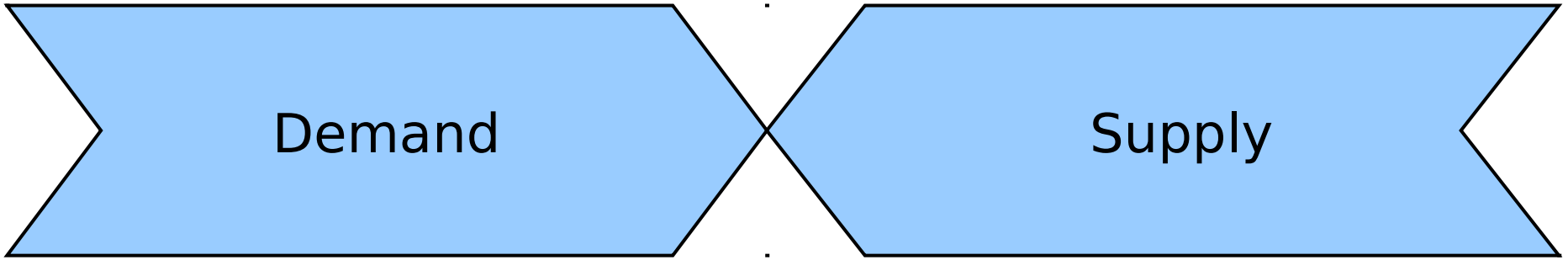
The MHS should collect a rigorous factbase to set strategy and targets



Overall, service line and MTF levels

- Patient population
- Outpatient visits
- Inpatient admissions
- Service line use rates
- Volumes per provider
- Pharmacy spend
- GME program accreditation
- Non-medical contracting costs
- Provider mix and capacity
- Provider productivity
- Support staff productivity
- Clinical outcomes
- Direct and purchased care costs
- Patient access
- Geographic resource distribution
- Patient satisfaction levels

Academic and private practice benchmarks

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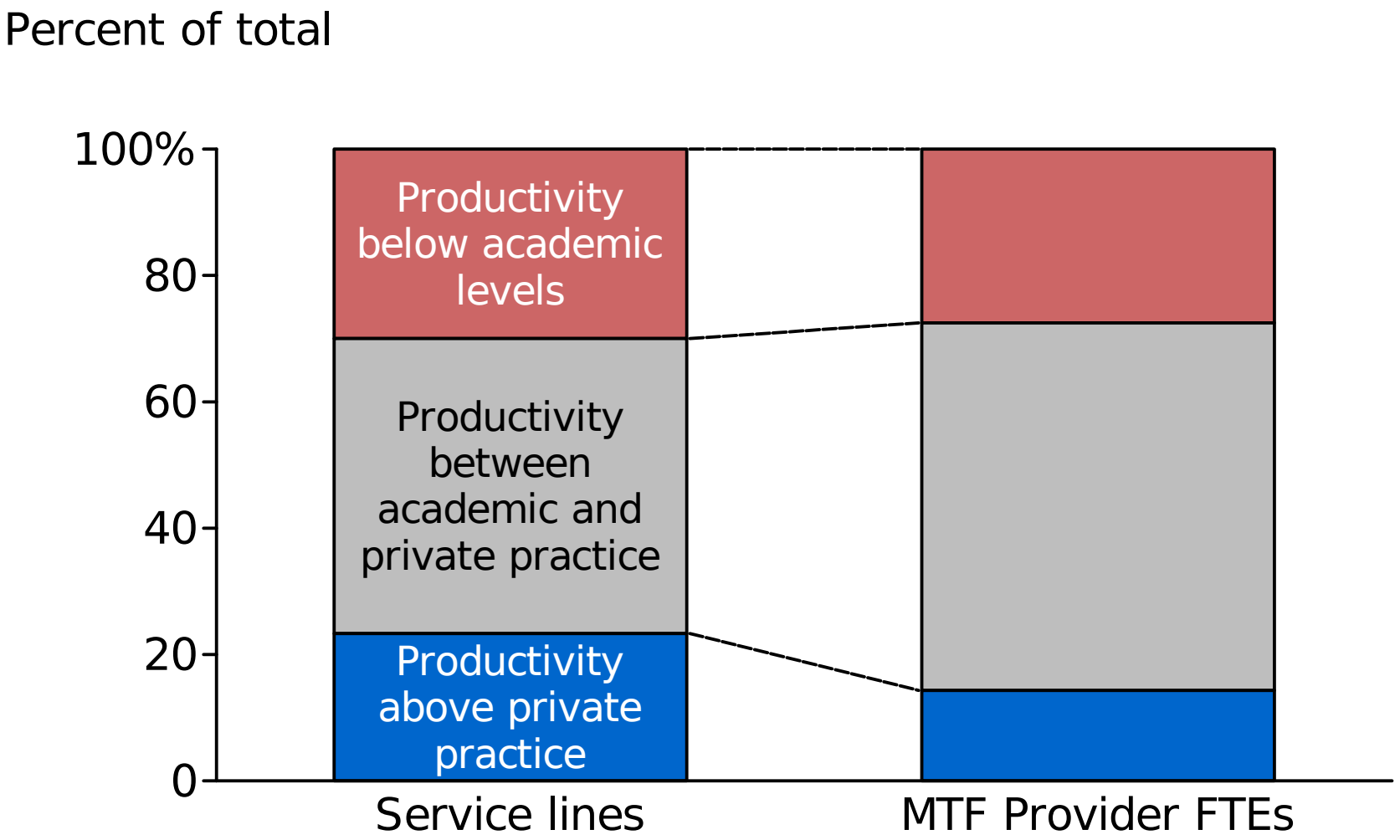
A preliminary diagnosis suggests that various clinical areas have productivity below academic institution benchmarks



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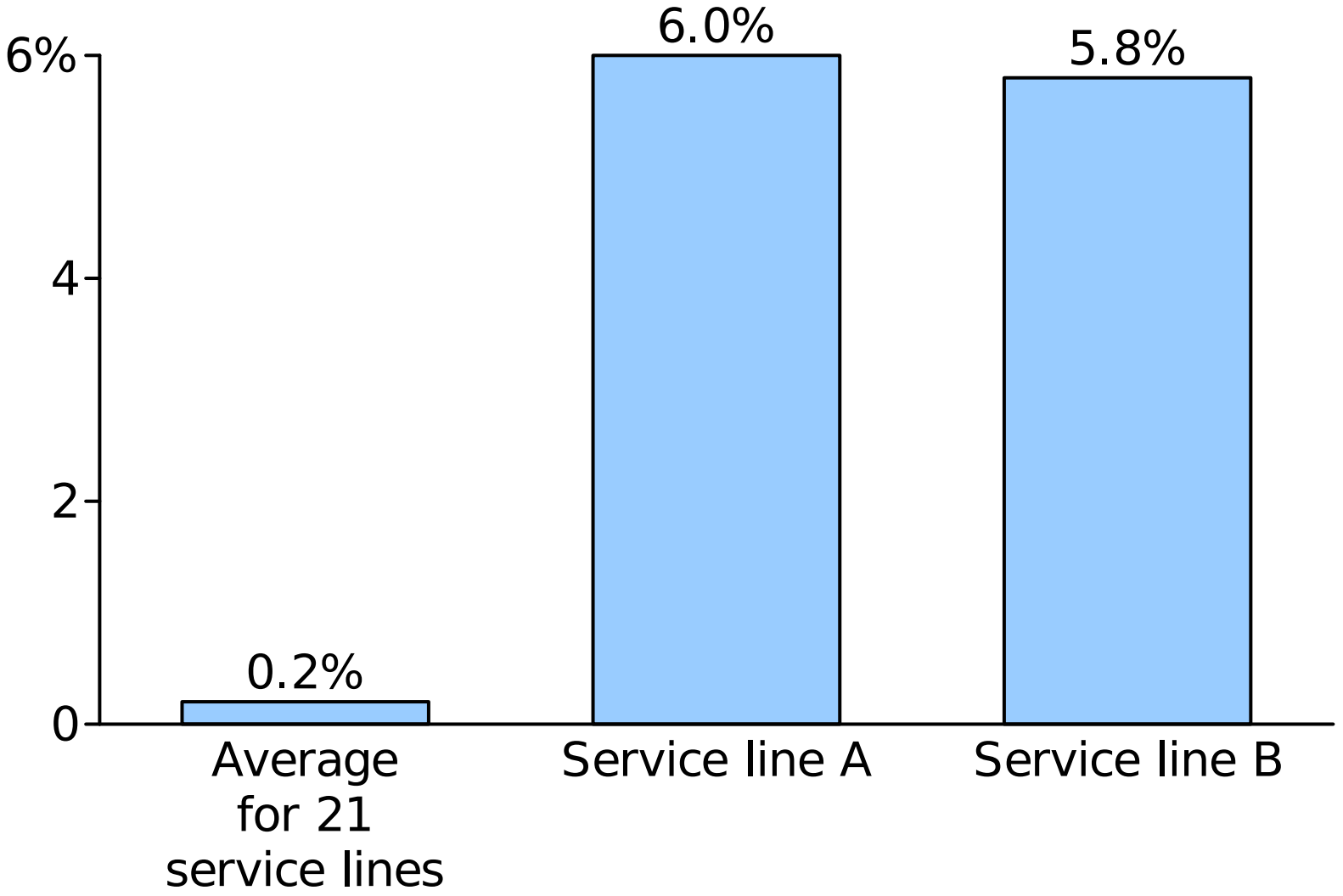
A number of service lines are also experiencing access issues

Percent leakage due to capacity constraints



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Redesign initiatives for the MHS may take many forms…

Facilities rationalization	Clinical program consolidation	Contracting/ collections from 3rd party payors	Resource allocations
Patient and provider retention	Shared support services	Specialization of facilities	Re-thinking outsourcing
Incentives across system	Preventative care/disease management	GME program design	Procurement efforts

… but must be informed by data

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Key questions for the MHS

- What is (are) the missions and how can they be translated into measurable goals?
- What service lines and activities should be provided in the MTFs versus purchased from the civilian sector?
  - Providers vs. hospital/clinic management
  - Primary vs. specialty care
- How is the MHS system performing vs. targets and the competition and what initiatives need to be put in place?
- What organizational changes are required to implement these initiatives?
- Which decisions should be made at an integrated versus at the Service (Army, Navy, Air Force) level?

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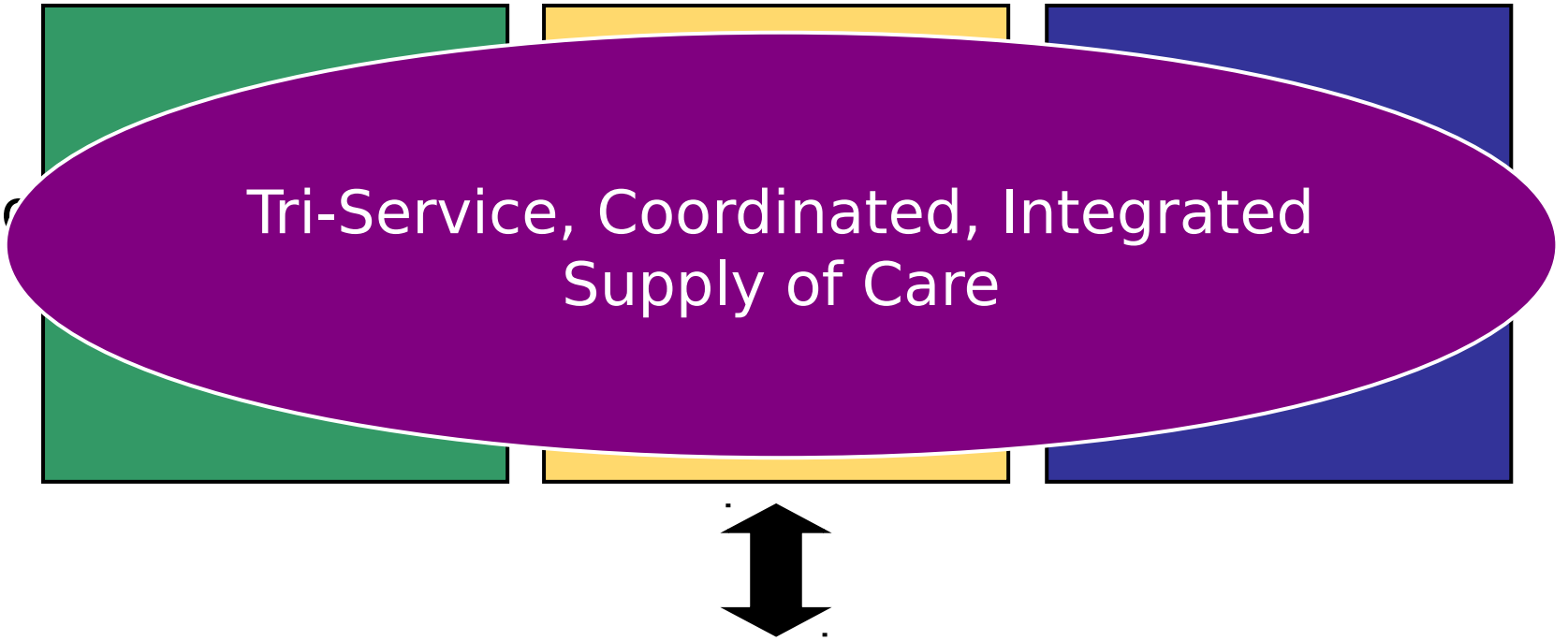
A single, integrated healthcare supply strategy needs to be developed to serve a single patient population

Supply of care:



Demand for care:

MHS Beneficiaries

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